

P 130913Z FEB 09
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TO SECSTATE WASHDC PRIORITY 9138
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UNCLAS HANOI 000121

STATE FOR EAP/MLS MBROWN
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E.O. 12958: N/A
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SUBJECT: VIETNAM'S PROVINCIAL COMPETITIVENESS SLIPS IN 2008

REF: A) 08 Hanoi 1918 ("Gains in Provincial Competitiveness");
B) 08 Hanoi 463 ("Education Scen setter");
C) 08 Hanoi 1329 ("Private Sector Tells Vietnam");
D) Hanoi 45 ("Responding to the Global Financial Crisis")

¶1. (U) Summary: The latest regional competitiveness survey showed a "systematic" deterioration in the business environment throughout Vietnam. According to the 2008 Provincial Competitive Index, a survey of thousands of Vietnamese businesses, provincial governments were less effective in 2008 in improving the overall business climate. Although there was little to no progress on corruption, respondents noted greater administrative efficiency. The survey, which ranks Vietnam's 63 provinces in terms of their business climate, gave top marks to Danang in central Vietnam, above perennial favorite Bing Duong, in the south. The survey is rapidly becoming the standard by which provinces assess themselves, and a useful tool in promoting reform at the regional level. End Summary.

A STEP BACK

¶2. (U) The "Vietnam Provincial Competitiveness Index" (PCI) reported "systematic" declines in provincial competitiveness across the board in 2008, including drops in overall score in seven of the top ten provinces from the 2007 results (REF A). This is a reversal from previous years that had shown a steady increase in regional competitiveness. The annual PCI is the leading study in regional competitiveness and is sponsored by Mission Vietnam and the Vietnam Chamber of Commerce and Industry (VCCI). The median PCI score this year (53.2) was 2.4 points lower than in 2007 (55.6). In 2006, the median weighted PCI score was 50.7.

CONTRIBUTORS TO THE FALL: SKILLED LABOR SHORTAGES

¶3. (U) The PCI cited several reasons for the lower scores this year. One was Vietnam's chronic skilled and semi-skilled labor shortage (REF B). For a third straight year, in 2008 it proved difficult for private firms and SMEs to find trained and qualified labor after a continued fall in graduation numbers. The PCI noted a drop in the national numbers of secondary school graduates "exacerbated" the skilled labor shortage in 2008. From 2006 to 2007, the national secondary school graduation rate dropped from 93% to 82%. The greatest drop was seen in the poorer provinces, where the secondary graduation rate fell from 72% to 38%. Vocational schools experienced similar declines in enrollment over the same period.

INFRASTRUCTURE LIMITATIONS

¶4. (U) The failure to improve infrastructure, another often-cited disincentive, was also cited as one the reasons for 2008's lower scores (REF C). PCI respondents agreed that "infrastructure is one of the most important constraints on economic growth and productivity in Vietnam." The cost of shipping a typical 40-foot container is "nearly twice as high in Vietnam" than in China,

according to the PCI. The PCI authors also stated that Vietnam is behind in developing "road, water, rail, and air transportation networks."

CORRUPTION REMAINS A CHALLENGE

¶15. (U) Informal charges and instances of corruption remained a problem, according to the PCI, noting that there was no improvement from 2007. The number of companies spending more than 10% of their time and resources dealing with bureaucratic red tape procedures was also higher in 2008 than on the previous year.

IMPROVEMENTS IN SOME AREAS: GREATER ADMINISTRATIVE EFFICIENCY

¶16. (U) Businesses reported progress in one-stop shop (OSS) system implementation in many provinces, which facilitates access to required legal documents, eases licensing and registrations, and simplifies procedures for start-ups. According to the PCI, security of property rights also continued to improve, while rules and decisions were increasingly publicized as a result of the proliferation of legal provincial gazettes. Sixty-five percent of surveyed companies reported ready access to provincial legal documents compared with 61% in 2007. Eighty-one percent of respondents now have formal Land Use Rights Certificates compared to 75% in 2007.

DANANG BUMPS HAI DUONG FROM TOP THE LIST

¶17. (U) Central Vietnam's main city of Danang took the top spot as the most competitive province from southern Binh Duong, which had held the top spot for four consecutive years. However, the overall competitiveness scores of both decreased compared with last year. Vin Phuc, part of the Hanoi-Red River Delta industrial belt, came in third place, displacing Vinh Long from the south, to fourth. The score of both improved from 2007. Rounding up the top-ten for 2008 are Dong Thap in fifth place, followed by Long An and Ben Tre (all in the south), Lao Cai (near the Chinese border in the north), An Giang (south) and Thua Thien-Hue in central Vietnam. Hanoi dropped in score and places from 27 to 31, while Ho Chi Minh City also dropped in both scores and places, from 10 to 13.

PCI: AN INCREASINGLY PROMINENT TOOL

¶18. (SBU) The PCI results are drawing increased interest from provincial authorities. Provinces are showcasing their rankings in their brochures and websites, while in meetings with Embassy officials, many lower-ranking ones vow to do better. After four years, provinces better understand the meaning and impact of the results, and using them to fix deficiencies and capitalize on advantages.

COMMENT: TIME TO ADDRESS OLD PROBLEMS

¶19. (U) Although there was progress in some important areas, the overall perception that Vietnam's provinces are less competitive than they were a year ago is worrisome at a time when the economy is under significant pressure (REF D). None of the main cited problems --skilled labor shortages, wanting infrastructure and red tape and lack of transparency-- are new. Vietnam could be a victim of the success of previous years as expectations outpace reality, or perceptions may have soured as a result of the economic challenges of 2008, as the PCI authors noted. The overall score did not totally revert back to 2006 levels but the 2008 backslide halted what had been a steady progression in perceptions that the business climate in the regions was improving. Many provinces that topped the list in 2008 have the dubious honor of saying that they came on top by backsliding less than their competitors.

METHODOLOGY

¶10. (U) The 2008 PCI is based on responses received from 7,820 Vietnamese private companies (i.e. no foreign firms or State-Owned

Enterprises) with an average of 122 responses per province. The PCI measures the ten indicators: legal institutions, entry costs, land access, transparency, time costs, informal charges, SOE bias, pro-activeness of provincial leadership, private sector development services, and labor training. The 2008 report focused on a series of time data to show the impact of policy changes over time related to the economic growth of the provinces, rather than confining the data to one year of collection as it did for the last three years. As well, this year's report features an additional infrastructure index to indentify a possible area of improvement for the provinces.

11. This cable was coordinated with USAID Vietnam.